



Management's Discussion and Analysis
And Financial Statements
June 30, 2013 and 2012

Cordell Hospital Authority

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Independent Auditor's Report

Board of Trustees
Cordell Hospital Authority
Cordell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Cordell Hospital Authority (Authority) which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cordell Hospital Authority as of June 30, 2013 and 2012, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013 on our consideration of Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
November 19, 2013

Introduction

Our discussion and analysis for Cordell Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

Current assets increased in 2013 by \$1,487,179 or 19% and increased in 2012 by \$2,426,064 or 46%.

Total liabilities decreased in 2013 by \$7,973 or 1% and increased in 2012 by \$602,630 or 120%.

The Authority's net position increased in 2013 by \$503,918 or 5% and increased in 2012 by \$1,785,831 or 22%.

The Authority reported an operating loss in 2013 of \$309,111 and an operating loss in 2012 of \$176,552. During 2013, operating loss increased by \$132,559 or 75% and decreased by \$585,001 or 77% in 2012.

Other operating revenue decreased by \$244,700 or 81% in 2013 and increased by \$239,018 or 381% in 2012.

Operating expenses increased in 2013 by \$167,955 or 4% and \$20,094 or 1% in 2012.

Using This Annual Report

The Authority's financial statements consist of three statements – Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position increased by \$503,918 or 5% in 2013 and increased by \$1,785,831 or 22% in 2012 as shown below.

	2013	2012	2011
Assets			
Current assets	\$ 9,215,990	\$ 7,728,811	\$ 5,302,747
Capital assets, net	603,172	742,475	872,146
Other assets	1,767,609	2,619,540	2,527,472
Total assets	<u>\$ 11,586,771</u>	<u>\$ 11,090,826</u>	<u>\$ 8,702,365</u>
Liabilities			
Other current and noncurrent liabilities	<u>\$ 1,094,875</u>	<u>\$ 1,102,848</u>	<u>\$ 500,218</u>
Total liabilities	<u>1,094,875</u>	<u>1,102,848</u>	<u>500,218</u>
Net Position			
Invested in capital assets, net of related debt	532,411	568,591	598,675
Unrestricted	<u>9,959,485</u>	<u>9,419,387</u>	<u>7,603,472</u>
Total net position	<u>10,491,896</u>	<u>9,987,978</u>	<u>8,202,147</u>
Total liabilities and net position	<u>\$ 11,586,771</u>	<u>\$ 11,090,826</u>	<u>\$ 8,702,365</u>

Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 3,660,660	\$ 3,380,564	\$ 3,014,487
Other operating revenue	57,036	301,736	62,718
Total operating revenues	<u>3,717,696</u>	<u>3,682,300</u>	<u>3,077,205</u>
Operating Expenses			
Nursing services	1,044,859	1,049,333	1,001,413
Other professional services	894,997	840,797	821,574
General services	464,772	421,889	417,960
Administrative services	1,431,940	1,342,626	1,372,136
Depreciation	190,239	204,207	225,675
Total operating expenses	<u>4,026,807</u>	<u>3,858,852</u>	<u>3,838,758</u>
Operating loss	<u>(309,111)</u>	<u>(176,552)</u>	<u>(761,553)</u>
Nonoperating Revenues			
Investment income	(197,815)	419,164	209,897
Interest	(4,413)	(7,948)	(11,324)
Loss on disposal of equipment	(1,682)	-	-
Noncapital grants and contributions	7,817	7,504	8,700
Intergovernmental transfers (sales tax from county)	<u>1,009,122</u>	<u>1,543,663</u>	<u>1,736,048</u>
Total nonoperating revenues	<u>813,029</u>	<u>1,962,383</u>	<u>1,943,321</u>
Increase in net position	<u>\$ 503,918</u>	<u>\$ 1,785,831</u>	<u>\$ 1,181,768</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past three years the Authority has had operating losses.

The operating loss for 2013 increased by \$132,559 or 75% as compared to the decrease of \$585,001 or 77% in 2012. The primary component of the increasing operating loss is:

An increase in net patient service revenue of \$280,096 or 8% in 2013 and an increase of \$366,077 or 12% in 2012 as well as an increase in operating expenses of \$167,955 or 4% in 2013 and \$20,094 or 1% in 2012. Other operating revenues decreased \$244,700 or 81% in 2013 and increased \$239,018 or 381% in 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county sales tax, investment income, noncapital grants and contributions and interest expense. Investment income decreased \$616,979 or 147% in 2013 as compared to the increase of \$209,267 or 100% in 2012. Intergovernmental transfers (county sales tax) decreased \$534,541 or 35% in 2013 and decreased \$192,385 or 11% in 2012.

The Authority's Cash Flows

The Authority's overall liquidity increased during the year with a net increase to cash and cash equivalents, of \$565,469 when compared with 2012. Cash flows provided by operating activities decreased by \$995,234 during 2013 when compared with 2012. This was due primarily to the decrease in receipts from or on the behalf of patients. Cash provided by non-capital financing activities decreased by \$530,316 when compared with 2012. Cash used for capital and capital related financing activities decreased by \$21,917 when compared with 2012. Cash used for investing activities was \$103,410 in 2013 compared to \$2,469,657 in 2012.

Capital Assets

The Authority had \$603,172 invested in capital assets at the end of 2013 and \$742,475 at the end of 2012, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets costing \$58,618 in 2013 and \$74,536 in 2012.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-832-3339.

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	2013	2012
Assets		
Current Assets		
Cash	\$ 1,251,144	\$ 685,675
Short term investments	7,057,547	6,297,697
Receivables		
Patients, net of estimated uncollectibles of approximately \$119,000 in 2013 and \$216,000 in 2012	474,089	325,943
Other	64,943	17,516
Due from County	150,610	204,959
Accrued interest receivable	54,451	56,775
Supplies	104,303	104,104
Prepays	58,903	36,142
Total current assets	9,215,990	7,728,811
Capital Assets, Net	603,172	742,475
Other Assets		
Long term investments	-	302,139
Investment in government bonds	1,767,609	2,317,401
Total other assets	1,767,609	2,619,540
Total assets	\$ 11,586,771	\$ 11,090,826

See Notes to Financial Statements

Cordell Hospital Authority
Balance Sheets
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 70,761	\$ 103,123
Accounts payable	94,466	72,731
Accrued expenses	105,466	138,545
Estimated third-party settlements	<u>824,182</u>	<u>717,688</u>
Total current liabilities	1,094,875	1,032,087
Long-Term Debt, Less Current Maturities	<u>-</u>	<u>70,761</u>
Total liabilities	<u>1,094,875</u>	<u>1,102,848</u>
Net Position		
Net investment in capital assets	532,411	568,591
Unrestricted	<u>9,959,485</u>	<u>9,419,387</u>
Total net position	<u>10,491,896</u>	<u>9,987,978</u>
Total liabilities and net position	<u><u>\$ 11,586,771</u></u>	<u><u>\$ 11,090,826</u></u>

Cordell Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$256,568 in 2013 and \$252,940 in 2012	\$ 3,660,660	\$ 3,380,564
Other revenue	<u>57,036</u>	<u>301,736</u>
Total operating revenues	<u>3,717,696</u>	<u>3,682,300</u>
Operating Expenses		
Nursing services	1,044,859	1,049,333
Other professional services	894,997	840,797
General services	464,772	421,889
Administrative services	1,431,940	1,342,626
Provision for depreciation	<u>190,239</u>	<u>204,207</u>
Total operating expenses	<u>4,026,807</u>	<u>3,858,852</u>
Operating Loss	<u>(309,111)</u>	<u>(176,552)</u>
Nonoperating Revenues (Expenses)		
Investment income (loss)	(197,815)	419,164
Interest expense	(4,413)	(7,948)
Loss on disposal of equipment	(1,682)	-
Noncapital grants and contributions	7,817	7,504
Intergovernmental transfers (sales tax from County)	<u>1,009,122</u>	<u>1,543,663</u>
Total nonoperating revenues	<u>813,029</u>	<u>1,962,383</u>
Revenue in Excess of Expenses and Increase in Net Position	503,918	1,785,831
Net Position, Beginning of Year	<u>9,987,978</u>	<u>8,202,147</u>
Net Position, End of Year	<u><u>\$ 10,491,896</u></u>	<u><u>\$ 9,987,978</u></u>

Cordell Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 3,619,008	\$ 4,132,943
Payments to suppliers and contractors	(2,063,874)	(1,829,833)
Payments to employees	(1,806,998)	(1,847,247)
Other receipts	9,609	297,116
Net Cash (used for) provided by Operating Activities	<u>(242,255)</u>	<u>752,979</u>
Noncapital Related Financing Activities		
Sales tax revenue received	1,063,471	1,594,100
Noncapital grants and contributions	7,817	7,504
Net Cash provided by Noncapital Related Financing Activities	<u>1,071,288</u>	<u>1,601,604</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(103,123)	(99,587)
Interest paid on long-term debt	(4,413)	(7,948)
Purchase of property and equipment	(58,618)	(74,536)
Proceeds from the sale of equipment	6,000	-
Net Cash used for Capital and Related Financing Activities	<u>(160,154)</u>	<u>(182,071)</u>
Investing Activities		
Purchases of investments	(1,531,039)	(2,908,545)
Proceeds from sale of investments	1,150,565	226,575
Interest on investments received	277,064	212,313
Net Cash used for Investing Activities	<u>(103,410)</u>	<u>(2,469,657)</u>
Net Increase (Decrease) in Cash	565,469	(297,145)
Cash, Beginning of Year	<u>685,675</u>	<u>982,820</u>
Cash, End of Year	<u><u>\$ 1,251,144</u></u>	<u><u>\$ 685,675</u></u>

Cordell Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	\$ (309,111)	\$ (176,552)
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	190,239	204,207
Provision for bad debts	256,568	252,940
Changes in assets and liabilities		
Accounts receivable	(404,714)	(266,134)
Other receivables	(47,427)	(4,620)
Supplies	(199)	(7,445)
Prepays	(22,761)	481
Accounts payable	21,735	17,899
Other accruals	(33,079)	(33,370)
Estimated third-party payor settlements	<u>106,494</u>	<u>765,573</u>
Reconciliation of Operating Loss to Net Cash Provided by (used for) Operating Activities	<u>\$ (242,255)</u>	<u>\$ 752,979</u>
Supplemental Disclosure of Non-cash Investing Activity		
Unrealized gain (loss) on investment	<u>\$ (472,555)</u>	<u>\$ 197,540</u>

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Cordell Hospital Authority (the Authority) is a public trust created under the laws of the State of Oklahoma. The Authority entered into a lease agreement with the City of New Cordell (the City), which expires January 17, 2019, for the hospital facilities and equipment. The governing body of the City appoints the Board of Trustee members of the Authority and the City is beneficiary of the trust.

The Authority is a critical access facility with 25 beds.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

The Authority adopted the provisions of *GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AI CPA Pronouncements* and *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in 2013*. Accordingly, the accounting change has been retrospectively applied to prior periods presented, as if the policy had always been used.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The financial statements have been presented in conformity with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, sales taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Income Taxes

As an essential government function of Cordell Hospital Authority, the Authority is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Short-term Investments

Short-term investments include certificates of deposit, U.S. Treasury securities and government backed mutual funds with an original maturity of three to twelve months.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	2 - 15 years
Buildings	15 - 40 years
Building improvements	5 - 20 years
Major moveable equipment	5 - 10 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from operations, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the balance sheet date plus an additional amount for compensation related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Investments and Investment Income

Investments consist of certificates of deposit, municipal bonds and mutual funds invested in government securities. Investments are measured at fair value on the balance sheet. Investment income or loss is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

Net Position

Net position is presented in the following two components:

Net investment in Capital Assets - Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of net investment in capital assets or restricted for debt service.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenues in Excess of Expenses

Revenues in excess of expenses excludes transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately \$23,000 and \$17,000 for the years ended June 30, 2013 and 2012. Total direct and indirect costs related to these foregone charges were \$19,000 and \$13,000 at June 30, 2013 and 2012, based on an average ratio of cost to gross charges.

Advertising Costs

The Authority expenses advertising costs as incurred. The Authority incurred \$22,432 and \$15,508 for advertising costs for the years ended June 30, 2013 and 2012, respectively.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments are available for the next three years. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental

hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital. As a critical access hospital, the Authority is not required to make payments into the program. The Authority records receipts as a reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

The Authority received funds from the Oklahoma Hospital Association totaling \$52,772 and \$44,894 for the years ended June 30, 2013 and 2012, respectively.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Authority's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Authority receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Reclassification

Reclassifications have been made to the June 30, 2012 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services at reimbursable cost plus one percent with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2011. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge, or other established rates with no retrospective adjustments. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Authority's Medicare cost report, or rates as established by the Medicaid program.

Other carriers: The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 62% and 3% of the Authority's net patient service revenue for the year ended June 30, 2013 and 68% and 5% for the year ended June 30, 2012. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2013 and 2012 increased approximately \$254,000 and \$255,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2013 and 2012, is as follows:

	2013	2012
Total Patient Service Revenue	\$ 4,647,088	\$ 4,351,878
Contractual adjustments		
Medicare	(279,289)	(253,891)
Medicaid	(153,663)	(127,725)
Other	(296,908)	(336,758)
Total contractual adjustments	(729,860)	(718,374)
Provision for bad debts	(256,568)	(252,940)
Net Patient Service Revenue, net of provision for bad debts	\$ 3,660,660	\$ 3,380,564

Note 3 - Deposits and Investments

State statutes require public trusts to invest monies in direct obligations of the United States Government or in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. At June 30, 2013 and 2012, the Authority had bank balances as follows:

Cordell Hospital Authority
Notes to Financial Statements
June 30, 2013 and 2012

	2013	2012
Total Bank Balance -		
Insured (FDIC)	\$ 1,201,696	\$ 1,583,586
Collateralized with securities held by the Authority's agent in the Authority's name	2,148,906	1,486,133
	<u>\$ 3,350,602</u>	<u>\$ 3,069,719</u>
Total Carrying Value -		
Cash and cash equivalents	\$ 1,251,144	\$ 685,675
Certificates of deposit	1,994,417	2,286,888
	<u>\$ 3,245,561</u>	<u>\$ 2,972,563</u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name. The Authority secures cash deposits and mutual funds in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2013 and 2012, there were no deposits in excess of federally insured limits and/or collateralized with governmental securities.

Short-term Investments

Short-term investments include investments with an original maturity date between three and twelve months. Short-term investments are stated at fair value and include the following at June 30, 2013 and 2012:

	2013	2012
Certificates of deposit	\$ 1,994,417	\$ 1,984,749
Investment in government mutual funds	5,063,130	4,312,948
	<u>\$ 7,057,547</u>	<u>\$ 6,297,697</u>

Long-term Investments

Long-term investments include the following at June 30, 2013 and 2012:

	2013	2012
Certificates of deposit	\$ -	\$ 302,139
Investment in government bonds	1,767,609	2,317,401
	<u>\$ 1,767,609</u>	<u>\$ 2,619,540</u>

Investment Income

Investment income consists of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Non operating revenue (expense)		
Interest income	\$ 274,740	\$ 221,624
Unrealized gains (losses) on investments	(472,555)	197,540
	<u>\$ (197,815)</u>	<u>\$ 419,164</u>

Note 4 - Capital Assets

A summary of capital assets at June 30, 2013 and 2012 follows:

	2013			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land	\$ 116,000	\$ -	\$ -	\$ 116,000
Construction in progress	10,302	13,406	-	23,708
	<u>126,302</u>	<u>13,406</u>	<u>-</u>	<u>139,708</u>
Capital assets being depreciated				
Land improvements	95,342	-	-	95,342
Buildings	526,388	45,212	-	571,600
Building improvement	482,287	-	-	482,287
Major moveable equipment	1,521,259	-	12,500	1,508,759
	<u>2,625,276</u>	<u>45,212</u>	<u>12,500</u>	<u>2,657,988</u>
Total assets being depreciated				
	<u>2,625,276</u>	<u>45,212</u>	<u>12,500</u>	<u>2,657,988</u>
Less accumulated depreciation for:				
Land improvements	89,332	4,401	-	93,733
Buildings	392,133	21,193	-	413,326
Buildings and improvements	246,886	39,486	-	286,372
Major moveable equipment	1,280,752	125,159	4,818	1,401,093
	<u>2,009,103</u>	<u>190,239</u>	<u>4,818</u>	<u>2,194,524</u>
Total accumulated depreciation				
	<u>2,009,103</u>	<u>190,239</u>	<u>4,818</u>	<u>2,194,524</u>
Capital assets, net	<u>\$ 742,475</u>	<u>\$ (131,621)</u>	<u>\$ 7,682</u>	<u>\$ 603,172</u>

Cordell Hospital Authority
Notes to Financial Statements
June 30, 2013 and 2012

	2012			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land	\$ 116,000	\$ -	\$ -	\$ 116,000
Construction in progress	-	10,302	-	10,302
Total assets not being depreciated	116,000	10,302	-	126,302
Capital assets being depreciated				
Land improvements	95,342	-	-	95,342
Buildings	519,162	7,226	-	526,388
Building improvement	425,279	57,008	-	482,287
Major moveable equipment	1,521,259	-	-	1,521,259
Total assets being depreciated	2,561,042	64,234	-	2,625,276
Less accumulated depreciation for:				
Land improvements	83,977	5,355	-	89,332
Buildings	372,106	20,027	-	392,133
Buildings and improvements	214,763	32,123	-	246,886
Major moveable equipment	1,134,050	146,702	-	1,280,752
Total accumulated depreciation	1,804,896	204,207	-	2,009,103
Capital assets, net	\$ 872,146	\$ (129,671)	\$ -	\$ 742,475

Construction in progress at June 30, 2013, represents construction of a new physician clinic. The estimated cost to complete this project is \$350,000 which will be financed with Authority funds. Construction on the clinic had not started as of June 30, 2013. Construction in progress relates to preliminary fees and design cost.

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. The rental expense for all operating leases was \$22,541 and \$5,254 for 2013 and 2012. The capitalized lease assets consist of:

	2013	2012
Major movable equipment	\$ 492,995	\$ 492,995
Less accumulated amortization (included as depreciation on the accompanying financial statements)	425,662	327,062
	<u>\$ 67,333</u>	<u>\$ 165,933</u>

Minimum future lease payments for capital and operating leases are as follows:

Years Ending June 30,	Capital Leases	Operating Leases
2014	\$ 71,690	\$ 6,151
2015	-	6,151
2016	-	6,151
2017	-	2,708
Total minimum lease payments	71,690	\$ 21,161
Less interest	(929)	
Present value of minimum lease payments	<u>\$ 70,761</u>	

Note 6 - Long-Term Debt

A summary of long-term debt, including capital lease obligations as of June 30, 2013 and 2012, follows:

	Beginning Balance	June 30, 2013			Current Portion
		Additions	Deductions	Ending Balance	
Capital lease obligations	<u>\$ 173,884</u>	<u>\$ -</u>	<u>\$ 103,123</u>	<u>\$ 70,761</u>	<u>\$ 70,761</u>

	Beginning Balance	June 30, 2012			Current Portion
		Additions	Deductions	Ending Balance	
Capital lease obligations	<u>\$ 273,471</u>	<u>\$ -</u>	<u>\$ 99,587</u>	<u>\$ 173,884</u>	<u>\$ 103,123</u>

The terms and due dates of the Authority's long term debt, capital lease obligations at June 30, 2013 and 2012 are as follows:

- Capital lease obligations, with imputed interest ranging from 3.14% to 3.93% with maturity dates of March and April 2014.

Scheduled principal and interest repayments on capital lease obligations, are as presented in Note 5.

Note 7 - Profit Sharing Plan

The Authority participates in a 403(b) Deferred Compensation Plan covering all employees who are at least 18 years of age, generally work twenty or more hours per week, and have completed six months of services with the Authority. The Authority, at its option, may contribute to the Plan. During 2013 and 2012, the Authority paid or accrued contributions of \$254,697 and \$269,553, respectively, which is included in administrative services

Note 8 - Related Party Transactions

The Authority is a Public Trust with the City of New Cordell designated as the beneficiary of the trust. The Authority purchased utility services from the City of New Cordell in the amounts of \$45,017 and \$46,328 for the years ended June 30, 2013 and 2012, respectively.

The Cordell Memorial Hospital Foundation (the Foundation) was established to promote projects which advance the quality of medical care for the residents of Washita County. The Foundation created an endowment fund to which private citizens and businesses may make monetary or in-kind contributions. They manage funds, accept applications for, and dispense grants to fund high quality medical equipment, improve existing patient services or implement patient services that are not already provided for in the established hospital budget.

The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Authority in amounts and in periods determined by the Foundation's Board of Directors. No transfers were made between the Authority and the Foundation during the years ended June 30, 2013 and 2012.

The County collects and retains sales tax collected for the benefit of the Authority. Amounts are disbursed from the County upon receipt of approved purchase orders from the Authority. The remainder is retained by the County until the Authority forwards approved purchase orders. The Authority receives rent from the Washita County Health Department. During the years ended June 30, 2013 and 2012, the total rent received was \$16,800 annually.

Note 9 - Concentration of Credit Risk

The Authority is located in New Cordell, Oklahoma. The Authority grants credit without collateral to its patients, many of who are residents and are insured under third-party payor agreements. The mix of net patient accounts receivable at June 30, 2013 and 2012, was as follows:

	2013	2012
Medicare and Medicaid	51%	40%
Commercial Insurance	25%	28%
Patients (self pay)	24%	32%
	<u>100%</u>	<u>100%</u>

Note 10 - Contingencies

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 million per claim and an annual aggregate limit of \$3,000,000 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims cost, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual had been made. It is reasonably possible that this estimate could change materially in the near term.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 11 - Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR “meaningful use” criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

The Authority did not record EHR incentives during the year ending June 30, 2013. During the year ended June 30, 2012, the Authority recorded \$-0- related to the Medicare program and recorded \$225,000 related to the Medicaid program in other operating revenue for EHR incentives.

Note 12 - Sales Tax Revenue

The voters of Washita County approved to extend the .5 percent sale tax for the benefit of Cordell Hospital Authority. The sales tax extension is for a five year period beginning October 1, 2009. The Authority received approximately 18 percent and 27 percent of its financial support from a .5% county sales tax in 2013 and 2012, respectively. Revenue from sales tax is recognized in the year the tax is earned.

Note 13 - Subsequent Events

The Authority has evaluated subsequent events through November 19, 2013, the date which the financial statements were available to be issued.



Supplementary Information
June 30, 2013 and 2012

Cordell Hospital Authority



Independent Auditor's Report on Supplementary Information

Board of Trustees
Cordell Hospital Authority
New Cordell, Oklahoma

We have audited the financial statements of Cordell Memorial Hospital as of and for the years then ended June 30, 2013 and 2012 and our report thereon dated November 19, 2013, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient revenue and schedules of other operating revenue are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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Oklahoma City, Oklahoma
November 19, 2013

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	2013		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 732,622	\$ 5,170	\$ 737,792
Other Nursing Services			
Central services and supply	284,017	31,626	315,643
Emergency services	28,749	648,018	676,767
	312,766	679,644	992,410
Other Professional Services			
Ambulance	-	184,978	184,978
Blood	27,058	5,769	32,827
CT scan	113,942	228,359	342,301
Electrocardiology	40,475	45,232	85,707
Laboratory	441,816	618,002	1,059,818
Pharmacy	691,384	135,884	827,268
Physical therapy	17,029	-	17,029
Radiology	55,978	115,783	171,761
Respiratory therapy	74,957	14,711	89,668
Telemedicine	-	-	-
Ultrasound	91,683	37,340	129,023
	1,554,322	1,386,058	2,940,380
Gross Patient Service Revenue	\$ 2,599,710	\$ 2,070,872	4,670,582
Charity Care			(23,494)
Total patient service revenue			4,647,088
Less Contractual Adjustments			
Medicare			279,289
Medicaid			153,663
Other			296,908
Total contractual adjustments			729,860
Provision for Bad Debts			256,568
Net Patient Service Revenue, less provision for bad debts			\$ 3,660,660

Cordell Hospital Authority
Schedules of Net Patient Service Revenues
Years Ended June 30, 2013 and 2012

<u>Inpatient</u>	2012	
	<u>Outpatient</u>	<u>Total</u>
<u>\$ 557,830</u>	<u>\$ 6,826</u>	<u>\$ 564,656</u>
208,287	31,562	239,849
<u>29,918</u>	<u>620,429</u>	<u>650,347</u>
<u>238,205</u>	<u>651,991</u>	<u>890,196</u>
-	215,479	215,479
30,950	9,078	40,028
121,026	194,278	315,304
55,660	60,580	116,240
466,129	672,931	1,139,060
558,839	91,582	650,421
13,344	-	13,344
70,224	128,485	198,709
123,318	9,316	132,634
-	350	350
<u>47,229</u>	<u>45,702</u>	<u>92,931</u>
<u>1,486,719</u>	<u>1,427,781</u>	<u>2,914,500</u>
<u>\$ 2,282,754</u>	<u>\$ 2,086,598</u>	<u>4,369,352</u>
		<u>(17,474)</u>
		<u>4,351,878</u>
		253,891
		127,725
		<u>336,758</u>
		<u>718,374</u>
		<u>252,940</u>
		<u>\$ 3,380,564</u>

Cordell Hospital Authority
Schedules of Other Operating Revenue
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Other Revenue		
Ambulance subsidy income	\$ 18,668	\$ 18,581
Cafeteria	6,975	9,163
Clinic rent - Physician's expense reimbursement	22,009	33,898
Medicaid EMR incentive	-	225,000
Lifeline services	730	1,180
Medical records fees	136	213
Miscellaneous	3,651	10,249
Purchase discounts	1,567	427
Rent	<u>3,300</u>	<u>3,025</u>
Total other revenue	<u>\$ 57,036</u>	<u>\$ 301,736</u>

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	2013		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 539,342	\$ 11,236	\$ 550,578
Central services and supply	416	23,847	24,263
Emergency services	126,276	343,742	470,018
	<u>666,034</u>	<u>378,825</u>	<u>1,044,859</u>
Other Professional Services			
Ambulance	133,203	7,184	140,387
Blood	-	11,732	11,732
CT scan	4,524	65,876	70,400
Electrocardiology	12,402	1,129	13,531
Laboratory	143,543	203,454	346,997
Pharmacy	62,918	72,498	135,416
Physical therapy	13	6,605	6,618
Radiology	87,945	29,414	117,359
Respiratory therapy	14,320	412	14,732
Telemedicine	-	-	-
Ultrasound	-	37,825	37,825
	<u>458,868</u>	<u>436,129</u>	<u>894,997</u>
General Services			
Dietary	88,322	45,844	134,166
Housekeeping	109,108	8,786	117,894
Laundry and linen	12,087	2,472	14,559
Medical records	52,498	10,686	63,184
Plant engineering	17,861	117,108	134,969
	<u>279,876</u>	<u>184,896</u>	<u>464,772</u>
Administrative Services			
Administrative and general	369,141	262,947	632,088
Employee benefits	-	799,852	799,852
	<u>369,141</u>	<u>1,062,799</u>	<u>1,431,940</u>
Provision for Depreciation	-	190,239	190,239
Total Expenses	<u>\$ 1,773,919</u>	<u>\$ 2,252,888</u>	<u>\$ 4,026,807</u>

Cordell Hospital Authority
Schedules of Operating Expenses
Years Ended June 30, 2013 and 2012

	2012	
Salaries	Other	Total
\$ 601,633	\$ 8,167	\$ 609,800
1,457	22,299	23,756
115,837	299,940	415,777
718,927	330,406	1,049,333
137,099	6,106	143,205
-	11,340	11,340
2,654	63,468	66,122
15,198	2,783	17,981
168,733	188,431	357,164
52,915	67,457	120,372
480	4,915	5,395
56,598	19,367	75,965
14,799	681	15,480
1,563	223	1,786
-	25,987	25,987
450,039	390,758	840,797
88,463	43,342	131,805
110,899	12,861	123,760
11,076	618	11,694
51,686	20,065	71,751
5,198	77,681	82,879
267,322	154,567	421,889
377,589	205,464	583,053
-	759,573	759,573
377,589	965,037	1,342,626
-	204,207	204,207
\$ 1,813,877	\$ 2,044,975	\$ 3,858,852



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Trustees
Cordell Hospital Authority
Cordell, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Cordell Hospital Authority the balance sheet as of and for the year ended June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated November 19, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cordell Hospital Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cordell Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cordell Hospital Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency 2013-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
November 19, 2013

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Significant Deficiency:

2013-A Preparation of Financial Statements

Condition and criteria: The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

Cause: The board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Auditor's Recommendation: It is recommended the Authority implement a system that allows the preparation of financial statements in accordance with GAAP.

Management Response: The hospital board has taken into consideration the expense of hiring additional accounting personnel for the accurate reporting of the financial statements and feels that the cost does not justify the benefit.